

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05
TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 AGRE-00 ABF-01 /092 W
-----071383 190427Z /21
P 190200Z APR 78
FM AMEMBASSY SEOUL
TO SECSTATE WASHDC PRIORITY 532

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PASS AID AND USDA/OGSM-HARRISON

E.O. 11652: N/A
TAGS: EAID, EAGR, SHUM, KS, US
SUBJECT: ROKG REQUEST FOR LONG-TERM AGRICULTURAL COMMODITY SUPPLY
AND CREDIT

SUMMARY: ECONOMIC PLANNING BOARD (EPB) LETTER RECEIVED,
REQUESTING AN ROKG/CCC AGREEMENT IN CY 1978 FOR THE PURCHASE
OF 543,000 M/T WHEAT AND 826,000 M/T CORN ON THREE-YEAR
REPAYMENT BASIS. SEPTTEL FOLLOWS WITH OUR COMMENTS.
END SUMMARY.

1. FOLLOWING LETTER RECEIVED FROM DEPUTY PRIME MINISTER AND
MINISTER OF ECONOMIC PLANNING, DUCK-WOO NAM.

QUOTE. I HAVE THE PLEASURE OF WRITING TO YOU TO PRO-
POSE FOR YOUR GOVERNMENT'S CONSIDERATION AN AGREEMENT, TO
BE ENTERED INTO BETWEEN THE GOVERNMENT OF THE REPUBLIC OF
KOREA AND THE U.S. COMMODITY CREDIT CORPORATION, FOR THE
PURCHASE IN CY 1978 OF 543,000 TONS OF WHEAT AND 826,000
TONS OF CORN, ON A THREE-YEAR REPAYMENT BASIS.

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QUOTE. IN PRESENTING THIS PROPOSAL, I WISH TO EMPHA-
SIZE THE FOLLOWING FACTORS WHICH BEAR CLOSELY UPON OUR
REQUEST FOR THIS TYPE OF AGREEMENT AND THE FINANCING
TERMS PROPOSED.

QUOTE. AS YOU KNOW, THE REPUBLIC OF KOREA HAS IN
RECENT YEARS REGAINED SELF-SUFFICIENCY IN THE PRODUCTION

OF RICE AND BARLEY. WE HAVE NOT, HOWEVER, REGAINED OR REACHED SELF-SUFFICIENCY IN A NUMBER OF OTHER IMPORTANT AGRICULTURAL COMMODITIES FOR WHICH THERE IS A STEADILY INCREASING DEMAND, INCLUDING CORN, WHEAT, SOYBEANS AND COTTON. CORN, IN PARTICULAR, HAS SHOWN A MARKED INCREASE IN DEMAND WHICH FAR EXCEEDS OUR CAPACITY FOR SELF-SUFFICIENCY, DUE BOTH TO THE DIVERSIFICATION AND IMPROVEMENT OF POPULAR FOOD CONSUMPTION PATTERNS AND ALSO THE RAPID GROWTH OF KOREA'S LIVESTOCK INDUSTRY, WHERE DEMAND FOR CORN HAS RISEN FROM 387,000 TONS IN 1975 TO 1,013,000 TONS IN 1977. WE MUST, THEREFORE, EXPECT TO CONTINUE TO IMPORT THESE ITEMS IN CONSIDERABLE QUANTITIES FOR A NUMBER OF YEARS TO COME.

QUOTE. AS A RESULT OF THE FAVORABLE TERMS WHICH HAVE BEEN PROVIDED UNDER THE PL 480 (I) LOAN AGREEMENTS BETWEEN OUR GOVERNMENTS AND UNDER CCC BUYER CREDIT, A VERY LARGE SHARE OF OUR PURCHASES OF THESE COMMODITIES HAVE BEEN FROM THE UNITED STATES. AS WELL AS CONTRIBUTING TO MEETING OUR REQUIREMENTS FOR THESE COMMODITIES, LONG-TERM PL 480 COMMODITIES HAVE ALSO HELPED TO MAINTAIN BUDGETARY STABILITY BY GENERATING COUNTERPART FUNDS WHICH HAVE CONSTITUTED A SIGNIFICANT PORTION OF GOVERNMENT REVENUE. SUCH FINANCING ARRANGEMENTS HAVE ALSO SERVED YOUR GOVERNMENT'S INTERESTS BY ASSURING U.S. PRODUCERS OF A READY AND DEPENDABLE MARKET FOR THESE PRODUCTS.

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QUOTE. THE KOREAN GOVERNMENT IS DESIROUS OF CONTINUING TO PURCHASE A LARGE SHARE OF ITS REQUIREMENT FOR THESE COMMODITIES FROM U.S. SOURCES TO THE EXTENT THAT SUPPLIES ARE AVAILABLE AND MUTUALLY AGREEABLE FINANCING TERMS CAN BE CONCLUDED. DURING CY 1978 WE FORESEE THE NEED TO IMPORT SOME DOLS. 886.5 MILLION WORTH OF THESE GOODS, INCLUDING 1,581,000 TONS OF CORN, 1,550,000 TONS OF WHEAT, 250,000 TONS OF SOYBEANS AND 1,200,000 BALES OF COTTON. REQUIREMENTS OVER THE NEXT SEVERAL YEARS ARE EXPECTED TO BE OF A SIMILAR MAGNITUDE.

QUOTE. IN THE GOVERNMENT'S ORIGINAL PROJECTION OF FUNDING FOR THIS YEAR'S IMPORTS OF THESE COMMODITIES, IT WAS ESTIMATED THAT DOLS. 252 MILLION WOULD BE MET WITH CCC CREDITS, DOLS. 156.5 MILLION THROUGH PL 480 LOAN FUNDS, AND THAT THE BALANCE OF SOME DOLS. 478 MILLION COULD BE COVERED BY KOREAN FOREIGN EXCHANGE. INASMUCH, HOWEVER, AS THE U.S. DEPARTMENT OF AGRICULTURE HAS ALLOCATED ONLY DOLS. 59.5 MILLION IN PL 480 LOAN FUNDS FOR KOREA IN CY 1978, THE BURDEN OF KFX IMPORTS OF THESE COMMODITIES WILL INCREASE TO APPROXIMATELY DOLS. 575 MILLION UNLESS OTHER ARRANGEMENTS ARE CON-

CLUDED.

QUOTE. OF THE TOTAL REQUIREMENTS FOR CY 1978, THE PROCUREMENT OF 807,000 TONS OF WHEAT AND 710,000 TONS OF CORN ARE EXPECTED TO BE PROCURED WITH KOREAN FOREIGN EXCHANGE OR CONVENTIONAL CCC FINANCING, AS ARE OUR REQUIREMENTS FOR COTTON AND SOYBEANS. A FURTHER 200,000 TONS OF WHEAT AND 45,000 TONS OF CORN HAVE BEEN PROPOSED FOR PROCUREMENT WITH PL 480 LOAN FUNDS. THE BALANCE OF OUR REQUIREMENT FOR WHEAT AND CORN ARE THE SUBJECT OF THIS PROPOSAL.

QUOTE. YOU ARE WELL AWARE, OF COURSE, THAT KOREA'S BALANCE OF PAYMENTS HAS IMPROVED CONSIDERABLY IN RECENT YEARS. AS A RESULT OF THE MARKED INCREASE OF SERVICES LIMITED OFFICIAL USE

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RECEIPTS AND THE CONTINUED GROWTH OF EXPORTS AT A HIGHER RATE THAN IMPORTS, KOREA WAS ABLE IN 1977 TO ACHIEVE A MODEST POSITIVE CURRENT ACCOUNT BALANCE AND TO ACCUMULATE FOREIGN EXCHANGE RESERVES OF SOME DOLS. 4.3 BILLION. OF THIS AMOUNT, HOWEVER, ONLY SOME DOLS. 2.8 BILLION IS IMMEDIATELY AVAILABLE, WHICH IS FAR LESS THAN THE RESERVES OF DOLS. 3.3 TO DOLS. 4.4 BILLION NECESSARY TO COVER CURRENT ACCOUNT OUTLAYS FOR A THREE TO FOUR MONTH PERIOD AT THE NATION'S PRESENT LEVEL OF ECONOMIC ACTIVITY.

QUOTE. WHILE WE LOOK FORWARD TO A CONTINUING INCREASE IN THIS RESERVE LEVEL, THE EXPENDITURES WHICH IT MUST COVER CAN ALSO BE EXPECTED TO INCREASE. KOREA'S ANNUAL LONG-TERM DEBT SERVICE PAYMENTS, IN CURRENT PRICES, WILL INCREASE FROM DOLS. ONE BILLION IN 1977 TO OVER DOLS. TWO BILLION IN 1981. CAPITAL GOODS IMPORTS WILL INCREASE FROM ALMOST DOLS. THREE BILLION TO OVER DOLS. FIVE BILLION PER ANNUM DURING THE SAME PERIOD. WE MUST ALSO EXPECT AN INCREASING DEMAND FOR FOREIGN EXCHANGE TO COVER LONG-TERM FINANCING OF OUR CAPITAL GOODS EXPORTS, AND AS A RESULT OF IMPORT LIBERALIZATION. THESE AND OTHER FACTORS PLACE A CONSIDERABLE AND STEADILY GROWING BURDEN UPON THE NATION'S FOREIGN EXCHANGE HOLDINGS WHICH WOULD BE EXTREMELY DIFFICULT TO MEET, IN 1978 AND IN FUTURE YEARS, IF THE REDUCTION AND EVENTUAL TERMINATION OF PL 480 LOAN ASSISTANCE IS NOT AT LEAST PARTIALLY COMPENSATED FOR BY AN ARRANGEMENT OF THE TYPE WE ARE PROPOSING.

QUOTE. A FURTHER CONSIDERATION IN OUR REQUEST FOR CCC CREDIT ON A GOVERNMENT-TO-GOVERNMENT BASIS WITH THREE-YEAR REPAYMENT TERMS IS THE URGENT NEED TO CONTINUE GRAIN PRICE SUPPORTS, AND AT THE SAME TIME TO RESTRAIN THE GROWTH OF THE NATION'S MONEY SUPPLY. WHILE THE CONCURRENT REALIZATION LIMITED OFFICIAL USE

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OF THESE POLICIES IS A CONSIDERABLE BURDEN, BOTH ARE VITALLY NECESSARY; THE FORMER AS A STIMULUS TO RAISING OF AGRICULTURAL PRODUCTIVITY AND THE IMPROVEMENT OF RURAL LIVING STANDARDS, AND THE LATTER AS AN IMPORTANT ELEMENT IN THE

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ACTION EA-12

INFO OCT-01 ISO-00 SP-02 ICA-11 AID-05 EB-08 NSC-05

TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03

LAB-04 SIL-01 AGRE-00 ABF-01 /092 W

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P 190200Z APR 78

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IN THE STABILIZATION OF PRICES. BOTH GOALS MUST BE ACCOMMODATED TO THE BEST OF THE GOVERNMENT'S ABILITY.

QUOTE. IN PURSUIT OF MAINTAINING OPTIMUM GRAIN PRICE LEVELS, THE GOVERNMENT'S GRAIN MANAGEMENT FUND HAS INCURRED A GRADUALLY INCREASING DEFICIT WHICH, AS A RESULT OF THE BUMPER 1977 RICE CROP, IS EXPECTED TO REACH SOME 540 BILLION WON BY THE END OF 1978. IN CONSEQUENCE, IT MAY BE NECESSARY TO BORROW SOME 300 BILLION WON FROM THE BANK OF KOREA IN ORDER TO REPLENISH THE FUND. SUCH A LOAN, HOWEVER, WOULD IMPAIR THE GOVERNMENT'S CONCURRENT EFFORTS TO CONTAIN THE EXPANSION OF MONEY SUPPLY AND RESTRAIN INFLATION. IT IS, THEREFORE, OUR EARNEST DESIRE TO REPLENISH THE GRAIN MANAGEMENT FUND BY ALLOCATING TO IT A SHARE OF THE COUNTERPART FUNDS GENERATED BY THE SALE OF AGRICULTURAL COMMODITIES IMPORTED FROM THE UNITED STATES UNDER THE TYPE OF CCC AGREEMENT WE ARE PRO-

POSING.

QUOTE. AS YOU WELL KNOW, THE STRATEGY OF THE FOURTH FIVE-YEAR ECONOMIC DEVELOPMENT PLAN (1977-1981) IS CENTERED LIMITED OFFICIAL USE

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AROUND THE OBJECTIVES OF GROWTH, EFFICIENCY AND EQUITY. AS PART OF THE NATIONAL PROGRAM TO IMPROVE THE WELFARE OF THE LOWER INCOME GROUPS AND TO INCREASE THEIR PARTICIPATION IN THE DEVELOPMENT PROCESS, A SECONDARY PURPOSE OF THE GRAIN MANAGEMENT FUND IS TO ENSURE THAT THE RISING INCOMES OF SMALL FARMERS ARE NOT AFFECTED ADVERSELY BY BUMPER CROPS RESULTING FROM IMPROVED RICE VARIETIES AND AGRICULTURAL PRACTICES. TO STOP THE GOVERNMENT'S PRESENT POLICY OF HIGH SUPPORT PRICES FOR AGRICULTURAL PRODUCTS WOULD MOST ADVERSELY AFFECT RURAL HOUSEHOLD INCOMES, WHICH HAVE FINALLY STARTED ON AN UPWARD TREND, AND CREATE UNDUE HARDSHIP ON THE SEGMENT OF THE POPULATION WHICH CAN AFFORD IT THE LEAST. COUNTERPART FUNDS WILL ALSO BE USED TO SUPPORT THE DEVELOPMENT OF THE AGRICULTURAL SECTOR THROUGH INVESTMENT IN SUCH PROJECTS AS AGRICULTURAL WATER DEVELOPMENT, LAND CONSOLIDATION, IRRIGATION, AGRICULTURAL MECHANIZATION AND OTHER MEASURES WHICH WILL INCREASE PRODUCTIVITY.

QUOTE. IN VIEW OF THESE FACTORS, WHICH I AM SURE YOU APPRECIATE, AS WELL AS A CONSIDERATION OF THE INTERESTS OF US PRODUCERS WHICH ARE SERVED BY THE ASSURANCE OF A STEADY KOREAN MARKET FOR THEIR BOUNTIFUL OUTPUT OF THESE PRODUCTS, I SINCERELY HOPE THAT YOUR GOVERNMENT WILL GIVE ITS COURTEOUS CONSIDERATION TO THIS PROPOSAL, AND LOOK FORWARD TO THE EARLY CONCLUSION OF SUCH AN AGREEMENT. UNQUOTE.

2. SEPTTEL FOLLOWS WITH MISSION COMMENTS.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: WHEAT, CREDIT AGREEMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 19 apr 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978SEOUL03183
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780167-0047
Format: TEL
From: SEOUL
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780439/aaaabhcn.tel
Line Count: 263
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 2b5001ab-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 05 may 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2915110
Secure: OPEN
Status: NATIVE
Subject: ROKG REQUEST FOR LONG-TERM AGRICULTURAL COMMODITY SUPPLY AND CREDIT SUMMARY: ECONOMIC PLANNING BOARD (EPB) LETTER RECE
TAGS: EAID, EAGR, SHUM, KS, US
To: STATE
Type: TE
vdkgvkey: odb://SAS/SAS.dbo.SAS_Docs/2b5001ab-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014